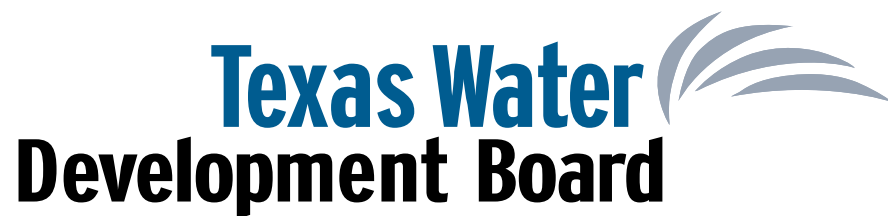


AUDIT PLAN FOR FY 2013
TEXAS WATER DEVELOPMENT BOARD



Submitted by

INTERNAL AUDIT

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The Texas Water Development Board FY 2013 Audit Plan

Introduction

The purpose of the Audit Plan is to outline audits and other activities Internal Audit will conduct during fiscal year 2013. The Plan is developed to satisfy responsibilities established by the TWDB's Internal Audit Charter, Section 2102.008 of the Government Code and other applicable auditing standards, including International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). The Audit Director, with approval from the Audit Committee Chair, is authorized to make changes to the Plan, to address changes in identified risks. However, significant revisions to the Audit Plan require the approval of the Board.

Internal Audit is an independent, objective assurance and consulting function designed to add value to the operations of the TWDB. It assists the TWDB in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes through providing objective reports, recommendations, counsel, and information on the adequacy and effectiveness of the TWDB's system of internal controls and the quality of performance. The plan demonstrates the variety of approaches Internal Audit takes to address its mission.

THE RISK ASSESSMENT PROCESS & PLANNED AUDITS

The Risk Assessment Process

Audits included in this Plan were primarily identified through a risk assessment process, in collaboration with Board members, agency leadership, division managers, and staff. Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and events. The IIA defines risk as "the possibility of an event occurring that will have an impact on the achievement of objectives." The audit planning process considered both the impact and likelihood of such events occurring. The TWDB's auditable activities include both organizational units and Agency-wide processes, each of which was risk-ranked using specific elements including relative size of the unit, potential impact on operations, regulatory compliance, public exposure, work complexity, audit history, and other factors deemed relevant by Internal Audit and executive management.

Planned Audits

With one exception, units and processes which were risk-ranked "high" were selected as audit projects. The specific scope of each audit in the plan will be determined once the audit team has completed its audit planning process. The audit planning process includes consideration of the risk management, control, and governance processes that provide reasonable assurance that:

- Risks are appropriately identified and managed.
- Information is accurate, reliable, and timely.
- Employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Operations are efficient and effective.
- Resources are acquired economically, used efficiently, and adequately protected

- Accountability systems are in place to make sure organizational and program missions, goals, plans, and objectives are achieved.

The result of the risk assessment is an informed perspective on the current risk environment, including a prioritization of risks. The proposed audit list was determined to ensure that the risks identified in the annual risk assessment are adequately covered within a “reasonable time frame,” as required by the Government Code, Chapter 2102.005. To meet this “reasonable time frame requirement,” this audit plan is part of a strategic plan to review all core processes every 4 years.

Chapter 2102.005 of the Government Code requires an agency’s governing board to “periodically review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risk identified in the annual risk assessment are adequately covered within a reasonable time frame.”

Planned audits for fiscal year 2013 are listed below:

(i) Review of the Drinking Water State Revolving Fund (DWSRF)

Determine whether the Agency has processes and controls to ensure program objectives are met in an effective and efficient manner and in compliance with federal and state laws, and relevant policies and procedures. In addition, determine whether management has processes designed and operating to help ensure funding decisions and project monitoring activities adequately safeguard the Board’s assets. At August 31, 2012 TWDB’s DWSRF had a loan portfolio of over \$500 million, over more than 150 financial assistance loans.

(ii) Review of Project Monitoring

Determine whether the Agency has monitoring processes and controls over projects funded under its financial assistance programs to ensure resources are used in compliance with relevant laws, program requirements and TWDB procedures. In addition, determine whether the monitoring processes ensure that projects are completed in a timely manner, and that state assets are safeguarded. As at August, 31, 2012, TWDB’s financial assistance program had more than 300 active projects, valued at approximately \$4.8 billion.

(iii) Review of Outlays Payments and Escrow Releases

Determine the extent to which TWDB’s management of outlay payments and escrow releases provides assurance that strategic and operational results and outcomes are achieved in an efficient and effective manner, that payments are properly processed, documented and approved in compliance with relevant laws, policies and procedures. For fiscal year 2012, TWDB processed 1,848 outlay payments totaling \$565 million, and 453 escrow releases totaling \$505 million. Outlay payment and escrow release management are multi-divisional processes that are coordinated by the agency’s Contracting and Purchasing team.

(iv) Review of Loan Recipient Monitoring

Determine whether the Agency has monitoring processes and controls designed and operating to safeguard TWDB's assets by ensuring financial assistance recipients are maintaining compliance with their contractual requirements. As at August 31, 2012, TWDB had approximately \$5.3 billion in loans receivable.

(v) Review of Revenue Management

Review the processes and controls over the TWDB's revenue management operations to determine whether resources are used efficiently and effectively; assets are safeguarded; and compliance is achieved with laws, policies, regulations, rules and contract covenants. TWDB's revenue management transactions include loan repayments, interest and investment income, contract revenue, federal receipts, and any other revenue received by the agency. TWDB's revenue management operations processed close to 5,600 revenue transactions totaling approximately \$2.6 billion.

(vi) Review of Information Security

Review the processes and controls over information security to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations and rules. Information security includes the integrity, security and reliability of administrative information systems that support the entire agency.

(vii) Review of the Research & Planning Fund

Determine whether the Agency has processes and controls to ensure fund objectives are met in an effective and efficient manner and in compliance with relevant laws, policies, and contract requirements. In addition, determine whether management has processes designed and operating to help ensure funding decisions and performance monitoring activities adequately safeguard the Board's assets. TWDB's research and planning fund activities for FY 2007 to FY 2012 totaled \$41.8 million. (FY 2012:\$1.6 million).

The result of the risk assessment is an informed perspective on the current risk environment, including a prioritization of risks that are scalable to available resources.

Chapter 2102.005 of the Government Code requires an agency's governing board to "periodically review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risk identified in the annual risk assessment are adequately covered within a reasonable time frame."

OTHER PLANNED INTERNAL AUDIT ACTIVITIES

Follow-up on Management Implementation of Prior Audits

IIA professional standards require Internal Audit to follow-up on audit recommendations to ensure implementation. Internal Audit reports on the status of implementation of management action plans from both internal and external audit reports on a quarterly basis. In addition, Internal Audit provides an update on the status of audit recommendations in its Annual Report that is distributed to the State Auditor's Office (SAO); Governor's Office of Budget, Planning, and Policy; Legislative Budget Board, and Sunset Advisory Commission.

Consulting Services and Contingencies

The internal auditing profession considers consulting and advisory services to management an integral part of its mission. Internal Audit provides advice and suggestions on management issues, concerns, and draft policies and procedures. In addition, to ensure Internal Audit has the flexibility to meet changing needs of the TWDB and address high priority issues as they arise, time is allocated for unplanned special projects, investigations, and other projects as needed.

Annual Internal Audit Report

The Texas Internal Auditing Act requires state agencies to file an annual internal audit report by November 1. The report summarizes Internal Audit activities of the previous year.

Coordination with External Audit Groups

Internal Audit coordinates the audit activities of external groups, including the SAO.

Periodic Reporting to the Audit Committee and Executive Management

The Director of Internal Audit reports on status of audit activities to the Audit Committee and executive management on a regular basis. In addition, Internal Audit provides consultative information to the TWDB Executive Administrator, management, and staff.

Involvement with Professional Organizations

In an effort to keep abreast of changes in the internal audit profession and best practices in auditing, fraud, state government and information security management issues, Internal Audit actively participates in professional auditing organizations including:

- Institute of Internal Auditors (IIA),
- Texas State Agency Internal Audit Forum (SAIAF),
- Association of Certified Fraud Examiners (ACFE),
- Information Systems Audit and Control Association (ISACA), and
- Association of Government Accountants (AGA).

